

SEP 18 1989

CERTIFIED MAIL

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

Your submitted information discloses that you were incorporated on [REDACTED] under the laws of the State of [REDACTED]. Your purposes, as stated within your Articles of Incorporation, are to be a private social and civic organization, and to aid, assist, support, and augment fund raising activities for the [REDACTED].

Your activities are to avail your facilities for community use for social functions and to sponsor charitable causes. Your letter of [REDACTED] affirmed that your facilities and personnel are provided to the general public on a regular basis for functions such as wedding receptions, retirement parties, and fraternity/sorority meetings. Your financial information reveals that your gross receipts will primarily come from rental of your facilities and from bar receipts. Your expenditures will primarily be for rental payments and expenses relating to the operation and maintenance of your facilities. These expenditures constitute a large portion of your gross receipts. Only a small portion of your gross receipts are to be donated to charitable organizations.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that the exemption provided by Code section 501(a) for organizations described in Code section 501(c)(7) applies only to clubs that are organized and operated exclusively for pleasure, recreation and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations provides that a club which engages in business, such as making its social and recreational facilities available to the general public is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under Code section 501(a).

Section 1.501(a)-1(c) of the Income Tax Regulations defines the words "private shareholder or individual" as referring to persons having a personal and private interest in the activities of the organization.

Revenue Ruling 69-220, published in Cumulative Bulletin 1969-1, page 154, provides that a social club that receives a substantial portion of its income from the rental of property and uses such income to defray operating expenses and to improve and expand its facilities is not exempt under Code section 501(c)(7). The organization was precluded from exemption because it regularly engaged in a business ordinarily carried on for profit and because its net income from this activity inured to its membership in the form of improved and expanded facilities.

Your activities are similar to that of the organization described within the above revenue ruling. Your facilities and personnel are provided to the general public on a regular basis. Your receipts will primarily come from the rental of your facilities and from bar receipts. Your expenditures will primarily be for rental payments and expenses relating to the operation and maintenance of your facilities. These expenditures constitute a large portion of your gross receipts, and only a small portion of your gross receipts are to be donated to charitable organizations. Because your gross receipts will primarily be expended on your facilities, which is a reduction of the cost of which your facilities are provided to your members, a portion of your net earnings has inured to your membership. You therefore do not qualify as an organization that is exempt from Federal income tax under Code section 501(c)(7).

[REDACTED]

In accordance with this determination, you are required to file Federal corporate income tax returns on Form 1120. If you do not accept our findings, we recommend that you request a conference with a member of our Regional office conference staff. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained within the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional office, or if you request, at any mutually convenient District office. If we do not hear from you within 30 days from the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]

District Director

Enclosure: Publication 892